

## Message Text

LIMITED OFFICIAL USE

PAGE 01 MONTEV 04355 01 OF 03 101651Z  
ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03  
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03  
SP-02 LAB-04 SIL-01 OMB-01 AGRE-00 L-03 H-01  
NSC-05 SS-15 STR-04 CEA-01 PA-01 PRS-01 /088 W  
-----048777 101835Z /45

R 101349Z SEP 77  
FM AMEMBASSY MONTEVIDEO  
TO SECSTATE WASHDC 4733

LIMITED OFFICIAL USE SECTION 1 OF 3 MONTEVIDEO 4355

E.O. 11652: NA  
TAGS: EAGR, UY  
SUBJ: PUBLIC DEBATE ON A FAILING AGRICULTURAL POLICY

1. SUMMARY. IN THE SIX MONTHS SINCE HE ASSUMED  
DIRECTION OF THE AGRICULTURAL POLICY OF THE GOU,  
MINISTER OF AGRICULTURE AND FISHING ESTANISLAO  
VALDES OTERO HAS MANAGED TO LINE UP MOST INTERESTS  
IN THE COUNTRY, FROM THE AGRICULTURAL SECTOR TO THE  
MILITARY, AGAINST HIM AND HIS POLICIES. THIS WAS  
DEMONSTRATED RECENTLY WHEN IN THE MONTEVIDEO INTER-  
NATIONAL LIVESTOCK SHOW THE HEAD OF THE RURAL  
ASSOCIATION DELIVERED A SPEECH OUTLINING WHY THERE  
WAS CONTINUING DECLINE OF INVESTMENT IN THE COUNTRY'S  
BASIC PROUCTIVE SECTOR. THE MINISTERED FOLLOWED WITH  
AN ATTEMPT TO PUT A GOOD FACE ON RECENTLY IMPOSED  
POLICIES AND TO PROMISE RELIEF TO THE RURAL SECTOR,  
AND THEN THE SECOND FARMING/RANCHING ASSOCIATION OF  
OF THE COUNTRY TOLD THE MINISTER THEY DID NOT BELIEVE  
HIM. BASIC POINTS IN THIS EXCHANGE OVER THE TROUBLED  
URUGUAYAN AGRICULTURAL SECTOR FOLLOW. END SUMMARY.

2. MINISTER VALDES OTERO CAME INTO OFFICE LAST FEBRUARY  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MONTEV 04355 01 OF 03 101651Z

SOME TWO MONTHS AFTER THE MILITARY HAD PUSHED ASIDE  
JULIO AZNAREZ, THE CAPABLE OFFICIAL WHO DIRECTED AGRICULTURE  
UNDER THE ECONOMIC LEADERSHIP OF EX-MINISTER OF ECONOMY  
VEGH VILLEGAS. VALDES IS A RANCHER-LAWYER WITH POLITICAL  
ABMITIONS WHO HAS HAD TO FACE THE EFFECTS ON AGRICULTURE  
OF BAD WEATHER AND PRESSURES FOR CHEAP BEEF ON URUGUAYAN  
TABLES DURING A RESURGENCE OF INFLATION. AT A TIME

WHEN DISINCENTIVES TO AGRICULTURAL PRODUCTION ARE GROWING, VALDES HAS RESPONDED BY IMPOSING POLICIES WITH A HEAVY HAND AND LISTENING LITTLE TO ADVICE WITHIN OR WITHOUT THE MINISTRY. BESIDES GENERALLY FOSTERING POOR RELATIONS WITH THE TWO PRINCIPAL AGRO-SECTOR INTEREST ORGANIZATIONS-- THE RURAL ASSOCIATION AND THE RURAL FEDERATION -- VALDES HAS ALSO (1) IGNORED THE GOU PROMISE OF THE YEAR BEFORE NOT TO REIMPOSE A TAX ON THE EXPORT EARNINGS OF URUGUAY'S MEAT-PACKING PLANTS (FRIGORIFICOS), (2) LEVIED DOMESTIC MARKET SHARE OBLIGATIONS ON ALL MEAT PACKERS -- AT LEAST ONE UNIT FOR DOMESTIC MEAT SUPPLY FOR EACH TWO UNITS EXPORTED --WHEN SOME, UNDER GOVERNMENT ENCOURAGEMENT, WERE BUILT TO THE HIGHER AND MORE COSTLY STANDARDS OF THE EXPORT MARKET, AND (3) MAINTAINED PRICES TO URUGUAYAN CATTLE PRODUCERS WHICH REPRESENT LESS THAN HALF 1972 LEVELS AND ABOUT HALF CURRENT ARGENTINE LEVELS. THESE AMONG OTHER (FIELD CROP) POLICIES, TAKEN TOGETHER, APPEAR TO HAVE UNITED URUGUAY'S AGRICULTURAL SECTOR AGAINST GOVERNMENT POLICY TO AN EXCEPTIONAL DEGREE.

3. DURING THE RECENT MONTEVIDEO INTERNATIONAL STOCK SHOW TWO SPEECHES DESCRIBED THE CRISIS OVER AGRICULTURAL POLICY FROM TWO VIEWPOINTS -- THAT OF PRESIDENT IGNACIO IRURETA GOYENA FROM THE POSITION OF THE RURAL ASSOCIATION AND THAT OF THE MINISTER. IRURETA GOYENA'S POINTS, OUTLINED BELOW, LARGELY COINCIDED WITH THE ANALYSES OF THE INTERNATIONAL LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 MONTEV 04355 01 OF 03 101651Z

DEVELOPMENTAL AGENCIES:

--FOR DECADES THE AGRICULTURAL SECTOR HAS BEEN FORCED TO TRANSFER LARGE RESOURCES TO THE URBAN POPULATION THROUGH FIXED PRICES AND EXPORT TAXES;

--THIS TRANSFER HAS WEAKENED AGRICULTURE AND PREVENTED IT'S PLAYING A PRODUCTIVE ROLE IN BALANCED GROWTH;

--BOTH THE HIGH LEVELS OF PROTECTION AND EXPORT INCENTIVES FOR THE INDUSTRIAL SECTOR REPRESENT IMPLICIT ADDITIONAL TAXATION OF TRADITIONAL AGRICULTURAL PRODUCTION;

--THE LEVELS OF SUBSIDY TO CONSUMPTION ON THE ONE HAND AND INDUSTRIAL PROMOTION ON THE OTHER, MUST TAKE INTO ACCOUNT THE NEED TO MAINTAIN CONCOMITANT PROFITABILITY OF THE COUNTRY'S AGRICULTURAL SECTOR. THE SECTOR CAN ONLY BE MAINTAINED --LET ALONE STIMULATED-- ON THE BASIS OF SUSTAINED INVESTMENT AND APPLICATION OF NEW TECHNOLOGY.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 MONTEV 04355 02 OF 03 101715Z  
ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03  
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03  
SP-02 LAB-04 SIL-01 OMB-01 AGRE-00 L-03 H-01  
PA-01 PRS-01 /063 W  
-----048948 101835Z /45

R 101349Z SEP 77  
FM AMEMBASSY MONTEVIDEO  
TO SECSTATE WASHDC 4734

LIMITED OFFICIAL USE SECTION 2 OF 3 MONTEVIDEO 4355

--THE URUGUAYAN AGRICULTURAL  
PRODUCER FACES MUCH HIGHER INPUT COSTS THAN HIS COMPETITORS  
AND CONSEQUENTLY EARNS LESS. EVEN THE SIMPLEST INTENSI-  
FICATION OF PRODUCTION ON AVAILABLE LAND CAN ONLY BE STIMULATED  
BT ENSURING THE PRODUCER A REASONABLE RETURN ON HIS INVESTMENT;

--SQUEEZING AGRICULTURE TO COUNTER INFLATION IS COUNTER-  
PRODUCTIVE; A FIFTY PERCENT RISE IN THE PRODUCER PRICE  
FOR BEEF WOULD INCREASE CPI INFLATION ONLY 2.5 PERCENT;

--ALTHOUGH STATE INTERVENTION IN URUGUAY OVER RECENT  
DECADES HAS SHOWN NO BENEFIT, IT CONTINUES TO GROW,  
ESPECIALLY IN AGRICULTURE. FOR THE STATE TO DETERMINE ALL  
CONDITIONS IN WHICH THE INDIVIDUAL IS FORCED TO PRODUCE IS  
NEITHER  
FAIR NOR PRODUCTIVE.

4. THE MINISTER'S SPEECH ON CURRENT AND PROPOSED  
AGRICULTURAL POLICY FOLLOWED AND CONTAINED THESE  
PROPOSED GOU ACTION:

--AN EFFECTIVE LOWERING OF  
AGRICULTURAL LAND TAXES, BASED ON THE THEORETICAL  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MONTEV 04355 02 OF 03 101715Z

JUSTIFICATION THAT NET, RATHER THAN GROSS, POTENTIAL INCOME FROM LAND SHOULD BE THE BASIS FOR THE IMPROVE (OR LAND PRODUCTIVITY) TAX;

--SOME EASING OF THE DUTIES FOR PAYMENT OF AGRICULTURAL TAXES TO ADJUST THEM TO VARYING CONDITIONS AFFECTING THE ACTUAL RECEIPT OF PAYMENT FOR FARMERS' PRODUCTION;

--IMPLEMENTATION OF AN EARLIER DECREE CALLING FOR A FREEING OF THE PRICES OF CATTLE APPROXIMATELY THREE-AND-A-HALF YEARS OLD OR YOUNGER AND FREEZING THE PRICE OF OLDER CATTLE. (THIS IS AN ATTEMPT TO IMPROVE EFFICIENCY OF RANGE MANAGEMENT BY REDUCING THE CATTLE FATTENING CYCLE);

--INCENTIVES TO PRODUCTION OF MEAT SUBSTITUTES FOR DOMESTIC CONSUMPTION, SPECIFICALLY BY LOWERING INPUT COSTS AND POSSIBLY ASSURING GOVERNMENT PURCHASES OF ANY EXCESS ON THE MARKET;

--WHEAT AND MILK SUPPORT POLICIES DESIGNED TO PROVIDE "REASONABLE" PROFIT FOR PRODUCTION OF THESE TWO COMMODITIES. (IN FACT, THE WHEAT SUPPORT SYSTEM ANNOUNCED FOR THE COMING YEAR IS SO HEDGED BY REQUIREMENTS FOR UNIT PRODUCTIVITY, TIME OF PLANTING, ETC., AS TO LEAVE NO EFFECTIVE INCENTIVE TO PRODUCTION -- EVEN IF WOULD MARKET CONDITIONS WERE BETTER.)

5. GENERAL THEMES USED IN THE SPEECH FOCUSED ON SOFTENING CONTINUED COMPLAINTS OF THE AGRICULTURAL SECTOR SUCH AS LOW PRODUCERS' REAL INCOME, CUTTING THE FLOW OF RESOURCES FROM THE AGRICULTURAL TO OTHER SECTORS OF THE ECONOMY, LIBERALIZING CURRENT AGRICULTURAL CONTROLS, MORE FLEXIBLE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 MONTEV 04355 02 OF 03 101715Z

AND MORE EQUITABLE TAX SYSTEMS AND -- REPEATEDLY -- LOWERING INPUT PRICES. MOVING BEYOND RECOGNITION OF THESE PRODUCERS' COMPLAINTS, VALDES OTERO EVEN PROVIDED DATA ON PRODUCER LOSSES (E.G. THAT FOR THE PAST TWO YEARS 88.5 PERCENT OF THE CATTLE FARMERS OPERATED AT A REAL LOSS OF US\$2.03 PER HECTARE EXPLOITED IN 1974-1975, AND US\$0.90 PER HECTARE IN 1975-1976). VALDES ACKNOWLEDGED THE DECAPITALIZATION WHICH THIS PRODUCED, AS EVIDENCED BY DECLINING CATTLE STOCKS AVAILABLE FOR SLAUGHTER IN THE CURRENT YEAR. AS A FURTHER GENERALITY ON WHAT HE DESCRIBED AS THE COUNTRY'S NEW AGRICULTURAL POLICY, THE MINISTER SAID THERE WILL BE MORE FOCUS ON DOMESTIC SUPPLY RATHER THAN ON FOREIGN MARKET SUPPLY, AS WAS EMPHASIZED OVER THE PAST SEVERAL YEARS.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 MONTEV 04355 03 OF 03 101717Z  
ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03  
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03  
SP-02 LAB-04 SIL-01 OMB-01 AGRE-00 L-03 H-01  
NSC-05 SS-15 STR-04 CEA-01 PA-01 PRS-01 /088 W  
-----048924 101835Z /45

R 101349Z SEP 77  
FM AMEMBASSY MONTEVIDEO  
O SECSTATE WASHDC 4735

LIMITED OFFICIAL USE SECTION 3 OF 3 MONTEVIDEO 4355

6. THE SPEECH SEEMED TO ANNOUNCE OFFICIAL RECOGNITION OF SEVERAL THINGS: FIRST, THAT THE AGRICULTURAL, AND SPECIFICALLY CATTLE PRODUCING, SECTOR HAD BEEN SQUEEZED UNTIL LITTLE INCENTIVE REMAINED FOR PRODUCTION; SECONDLY, THAT THE BLUDGEON APPROACH TO DELIVERING AGRICULTURAL POLICY OVER THE LAST FEW MONTHS WAS, AT BEST, BAD PUBLIC RELATIONS; THIRDLY, THAT MEAT SUBSTITUTES NEED TO BE DEVELOPED, AND, FINALLY, THAT DOMESTIC SUPPLY CONSIDERATIONS ARE POLITICALLY MORE IMPORTANT THIS YEAR -- GIVEN THE CLIMBING INFLATION RATE -- AND CAN MORE EASILY BE ATTENDED TO IN LIGHT OF THE SUCCESSFUL EXPORT DRIVE (AND INTERNATIONAL RESERVE ACCUMULATION) OVER THE LAST SEVERAL YEARS.

7. AS FOR THE ROLE OF VALDES OTERO HIMSELF IN LONG-TERM AGRICULTURAL PLANNING, THERE IS CONSIDERABLE COMMENTARY THAT HE IS NOT ONE WHO EITHER LISTENS TO ADVICE, ACCOMMODATES INTEREST IN THE SECTOR OR BRINGS MUCH STAFF WORK TO HIS POLICY DECISIONS. YOUNG PROFESSIONALS ARE, REPORTEDLY, LEAVING THE MINISTRY AND MORALE THERE IS LOW. VALDES OTERO'S POLICIES HAVE BEEN DEBATED INTENSIVELY BY THE ECONOMIC TEAM, WITH STRONG CRITICISM AGAINST HIS POLICIES COMING FROM THE MINISTER OF ECONOMY

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MONTEV 04355 03 OF 03 101717Z

AND THE PRESIDENT OF THE BANK OF THE REPUBLIC.

8. SHORTLY AFTER THE VALDES SPEECH THE SECOND AGRICULTURAL GROUP, THE RURAL FEDERATION, ANNOUNCED ESSENTIALLY THAT IT DIDN'T BELIEVE THE MINISTER. IT CONTENDS THAT THE MINISTER'S SPEECH CORRECTLY RECOGNIZED THE PROBLEMS OF GREATEST CONCERN TO THE RURAL FEDERATION BUT THAT ITS POLICY PROPOSALS WOULD NOT SOLVE THE PROBLEMS. THE SPEECH ACKNOWLEDGED THE NECESSITY FOR PRICE LIBERALIZAION, BUT RECENT DEVREES DO NO REFLECT HAT ORIENTATION. PRICES REMAINED TYPICALLY STATE CONTROLLED. THERE IS NO FREE PRICE WITH REGARD TO SLAUGHTER CATTLE, REGARDLESS OF AGE, WHICH ARE DESTINED TO LOCAL CONSUMPTION. IN SUMMARY, THE RURAL FEDERATION CONTENDED THAT EVEN RECENT ACTION BY THE MINISTER GIVES NO SUPPORT TO HOPES THAT THE GENERALITIES OF THE SPEECH WILL BE TURNED INTO OPERATING POLICIES.

9. COMMENT: AGRICULTURAL POLICY IS IN TROUBLE IN URUGUAY. THE POINTS IN THE RURAL ASSOCIATIONS'S ANALYSIS ARE TRUE AND PERSUASIVE IN THE ABSTRACT AND ARE EVEN LARGELY EMBODIED IN EARLIER GOU STATEMENTS OF OBJECTIVES. BUT THE EASY POLITICS OR SQUEEZING AGRICULTURE ONE MORE YEAR, PARTIALLY WITH THE SHORT-TERM OBJECTIVE OF TAKING SOME OF THE IN-FLATIONARY PRESSURES OFF, ARE PROVOKING A LEVEL OF DISCONTENT IN THE SECTOR WHICH THE GOVERNMENT CANNOT IGNORE FOR LONG.

10. MOST OBJECTIVE OBSERVERS RESPECT THE MINISTER'S LONG-TERM GOAL OF IMPROVING THE EFFICIENCY OF CATTLE PRODUCTION BUT QUESTION HIS APPROACH. SPECIFICALLY, SHORTENING THE CATTLE FATTENING CYCLE REQUIRES PRODUCER INVESTMENT IN NEW TECHNOLOGY AND BETTER RANGE MANAGEMENT. THIS, IN TURN, IS UNLIKELY AS LONG AS LOW PRODUCER PRICES DISCOURAGE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 MONTEV 04355 03 OF 03 101717Z

APPLICATION OF NEW INVESTMENT OR TECHNOLOGY. GOU CONTROL OF THE MEAT PACKING INDUSTRY, NATIONALIZED IN ALL BUT NAME, HAS ALSO LED TO MAJOR CONTRONTATIONS WHICH HAVE DAMAGED NEW INVESTMENT PROSPECTS JUST WHEN THEY SHOULD HAVE BEEN NURTURED TO CONTINUE RECENT MOMENTUM. POTENTIAL EXPORT MARKETS HAVE BEEN LOST IN THE PROCESS. MUCH OF THIS CAN BE ATTRIBUTED TO A "HARD-HEAD" TAKING THE REINS JUST AS THERE HAS BEEN AN ALMOST COMPLETE ABSENCE OF COORDINATION AND RATINALIZATION OF MACRO-ECONOMIC POLICY WITHIN THE GOVERNMENT. THE MOST DISCOURAGING ELEMETN IS THAT THERE DOESN'T APPEAR TO BE ANY POSITIVE CHANGE ON THE HORIZON. SENIOR POLICYMAKERS ARE ESSENTIALLY WAITING TO SEE THE SUCCESS OR FAILURE OF VALDES OTERO'S GAMBLE.  
CHEEK

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** AGRICULTURAL POLICIES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Sent Date:** 10-Sep-1977 12:00:00 am  
**Decaption Date:** 01-Jan-1960 12:00:00 am  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1977MONTEV04355  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D770329-0259  
**Format:** TEL  
**From:** MONTEVIDEO  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1977/newtext/t19770978/aaaacnob.tel  
**Line Count:** 332  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** 0ff10d49-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION ARA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 7  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 18-Jan-2005 12:00:00 am  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 1319180  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** PUBLIC DEBATE ON A FAILING AGRICULTURAL POLICY  
**TAGS:** EAGR, UY  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odhc://SAS/SAS.dbo.SAS\_Docs/0ff10d49-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009